HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2013

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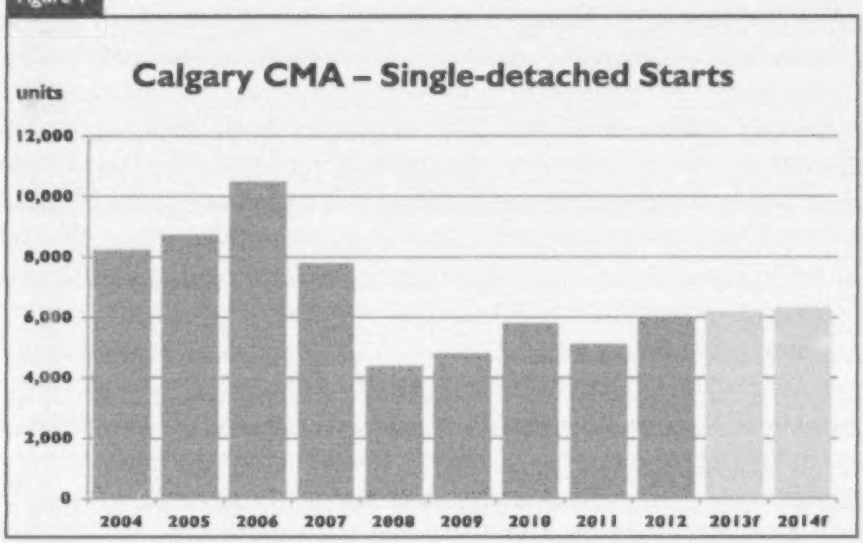
NEW HOME MARKET

Total housing starts to moderate in 2013 before rising in 2014

Following a 38 per cent increase in 2012, total housing starts in the Calgary Census Metropolitan Area (CMA) are forecast to decline 8.9 per cent in 2013 before increasing slightly next year. While new single-detached construction will see a modest increase over the next two years, the elevated pace of multi-family construction witnessed in 2012 is not expected to continue this year. Heightened supply levels and the threat of rising inventories will warrant a reduction in multi-family starts in 2013. A moderation in the pace of job creation and net migration will also warrant a lower level of starts this year.

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 26, 2013.

[2]Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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Total housing starts are forecast to reach 11,700 units in 2013, before rising to 12,100 units in 2014 when supply levels decline and job growth and migration improves. Overall, demand for new housing will remain strong throughout the forecast period as economic growth generates employment and rising incomes, motivating people to take advantage of low mortgage rates

Single-detached starts to increase through 2014

The pace of single-detached starts in the opening months of 2013 has been higher compared to the level of 2012. In the first three months of 2013, 1,427 single-detached units were started, a 13.6 per cent increase from 1,256 units in the same period of 2012. The supply of single-detached listings in the competing resale market has come down from the previous year, resulting in some buyers looking to the new home market to satisfy their housing needs. Income growth and consistent gains in full-time employment have also contributed to higher demand for new homes. In 2013, 6,200 single-detached units are forecast to start construction, up four per cent from a year earlier. As economic conditions gradually strengthen, single-detached starts in 2014 are forecast to slightly increase above 2013 levels, reaching 6,300 units.

While last year's gain in housing starts have pushed overall supply levels higher, the inventory of complete and unabsorbed single-detached units has been trending lower and has declined on a year-over-year basis since October of last year. Single-detached inventories in March totalled 408 units, 14 per cent lower than the same month a year earlier and well below the preceding 10-year average of 543 units per month. A high proportion of homes have been absorbed at completion as spec units have attracted buyers interested in taking a quick possession. The decline in inventory is due to a lower spec supply as showhomes were on par with 2012 numbers. On this basis, builders have been busy starting more homes in 2013, supported by either presales or an effort to replenish their spec supply.

New home prices to rise in 2013 and 2014

Statistics Canada's New House Price Index (NHPI) for Calgary increased modestly by 1.7 per cent in 2012, though stronger gains are expected for 2013 and 2014. In concert with a rising volume of units under construction, new home price growth picked-up momentum in the latter half of 2012 and has continued in 2013. After two months, the NHPI was up 3.8 per cent from the same period a year earlier. A rising number of units under construction has resulted in higher demand for labour and materials, pushing costs higher and contributing to higher home prices. The number of units under construction has increased 25 per cent from March 2012 to March 2013 to the highest level in nearly three years. Most of the gains in the NHPI have thus far been associated with the house component, although the land component was also higher. By the end of 2013, the NHPI in the Calgary CMA is forecast to finish the year up 3.8 per cent. New home prices are expected to rise another 2.9 per cent in 2014 as builders continue to face rising cost pressures.

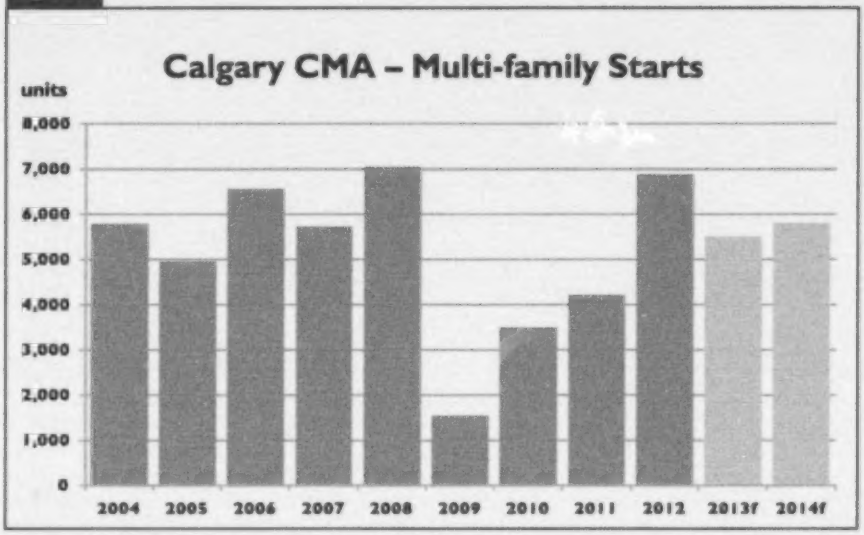
Last year's increase in the NHPI was comparatively lower than the gain in the average absorbed price. With a higher proportion of homes absorbed in the luxury home market, the average absorbed single-detached price rose by 5.9 per cent in 2012 to $580,135. This represented the second consecutive year that the average absorbed price increased. Rising incomes, low mortgage rates, and equity gains in existing homes have helped support sales for higher priced homes.

In the absence of a continued shift to the upper price ranges, the absorbed single-detached price is forecast to rise only modestly in 2013. Expect an average of $581,000 in 2013, up slightly from $580,135 in 2012. Balanced market conditions and rising construction costs will contribute to further price growth next year. In 2014, the average absorbed price is expected to increase 2.1 per cent to $593,000. Readers should note that the absorbed price reflects units absorbed at or after completion in a given month, which is not necessarily the month when the price was negotiated.

Multi-family starts to decline from the elevated pace in 2012

The moderating trend in new multi-family construction that started toward the end of 2012 has continued into 2013. In the first quarter of 2013, multi-family starts declined 44.5 per cent to 1,078 units, down from 1,944 units a year earlier. The decline was mainly attributed to fewer apartment units starting construction as the combined total of semi-detached and row starts increased.

Figure 2



Source: CMHC, CMHC Forecast (f)

Multi-family construction this year is not expected to be as strong as 2012 when starts reached its second highest level since 1981. The increase in the number of units under construction and the prospect of rising inventories will keep starts from returning to last year's elevated levels. In 2013, multi-family starts are forecast to total 5,500 units, a 20 per cent decline from 2012. Despite the reduction, multi-family units will continue to be an option for a variety of buyers, such as renters looking for their first home, individuals planning to downsize, or investors seeking an income-producing property. Provided supply levels move lower and inventory levels do not escalate, multi-family starts in 2014 are forecast to increase 5.5 per cent to 5,800 units.

Multi-family inventories in March 2013 totalled 501 units, down 9.7 per cent from 555 units in March 2012 and well below the peak of over 800 units reached in 2010. The decline in inventory has helped builders increase production over the last couple of years. Gradual improvements in the economy and market balance in the resale condominium market have supported demand for new multi-family units. Although inventories have decreased from a year earlier, they have risen above the past 10-year average and are at risk of moving higher. In March 2013, there were 7,708 multi-family units under construction, up 14 per cent from 6,765 units in the same month a year earlier. Multi-family inventories are anticipated to experience some upward pressure as some spec units underway finish construction and are added to inventory.

The pace of housing starts thus far has differed among the three different multi-family housing types. There has been a pronounced increase in semi-detached starts in the first quarter of 2013, rising 73.5 per cent to 340 units from the same period in 2012. These units often provide similar characteristics to a single-detached home, while on average, are priced lower. In addition, semi-detached units generally do not have condominium fees which also appeal to some buyers. The rise in construction thus far in the year is expected to continue as semi-detached building permits have increased, suggesting more units are planned to be built in the coming months.

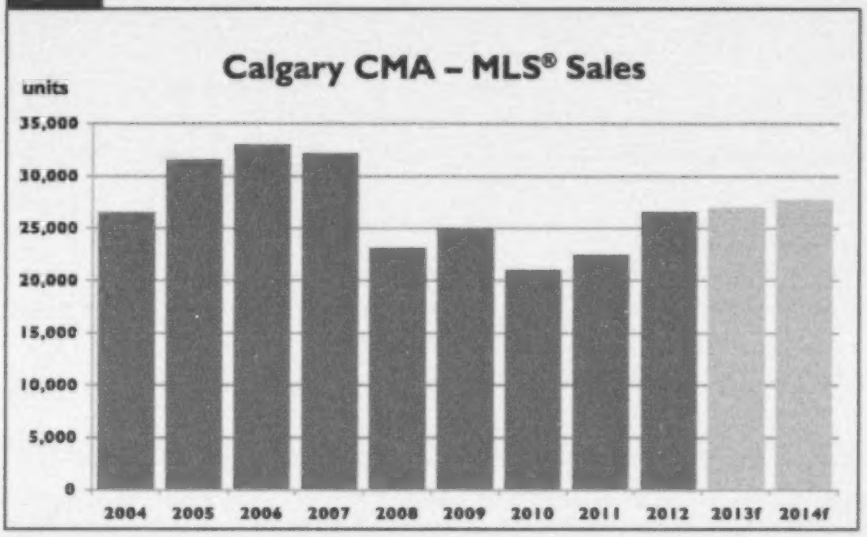
Unlike semi-detached units, the number of large apartment projects to start has moved lower in the first three months of this year. This has contributed to a 73 per cent year-over-year decline in apartment starts thus far in 2013. In the Calgary CMA, there were no apartment buildings with more than 90 units that started construction in the first quarter of 2013, compared to eight in 2012. However, a number of large apartment projects are expected to start later in the year as building permits have already been issued.

RESALE MARKET

Sales to rise through 2014

Residential MLS® sales in Calgary are forecast to total 27,000 transactions in 2013, up 1.4 per cent from 26,634 in 2012. The gain in sales will not be as pronounced as in 2012 when sales increased 19 per cent, as some of the primary drivers of housing demand such as employment and migration will experience a lower rate of growth this year. In 2014, MLS® sales are forecast to reach 27,700 units, a 2.6 per cent increase from 2013. The economy in Calgary will continue to create jobs while relatively low mortgage rates and rising incomes will help buyers purchase a home.

Figure 3



Source: CREA, CMHC Forecast (f)

Home prices in Calgary have not posted strong gains in the last couple of years, following the declines in average price in 2008 and 2009. As such, a number of homeowners are waiting for prices to increase further before listing their homes. With prices rising moving forward, more homeowners will look to capitalize on equity gains and list their homes. New listings in 2013 are forecast to finish the year slightly above 2012 levels at 42,500 units. For 2014, new listings are forecast to reach 43,000 units, up 1.2 per cent from a year earlier.

Average price to rise in 2013 and 2014

The availability of existing homes in Calgary has declined in 2013, a trend that started in 2011. Total residential active listings in March 2013, as reported by the Calgary Real Estate Board, was down 17.1 per cent from the March 2012. Most of the decline has occurred among the lower price ranges, while the selection of homes in higher price ranges has increased. However, the decline in monthly active listings has been moderating on a year-over-year basis and may start to trend upwards later in 2013 as new listings pick-up.

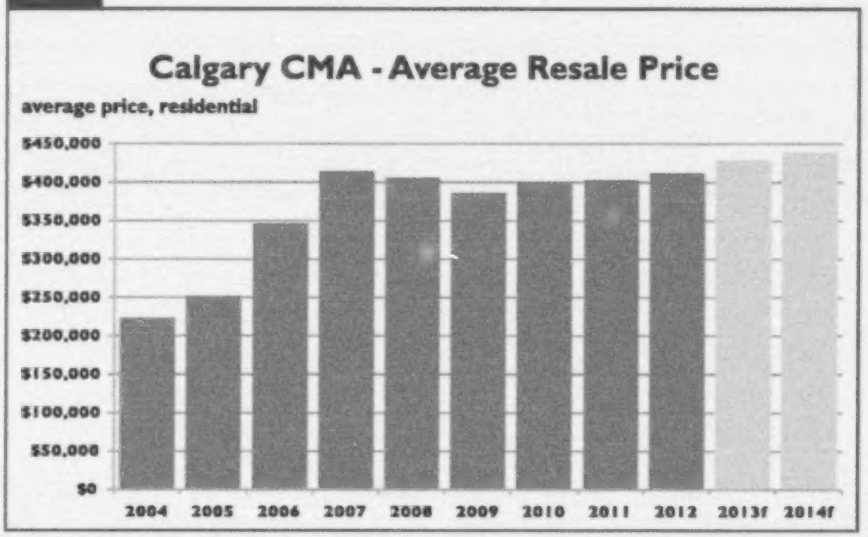
With higher sales and moderating listings, the sales-to-active listings ratio increased to an average of 35 per cent in the first three months of 2013, up from 28 per cent one year earlier. Under these conditions, the average MLS® residential price in Calgary is expected to rise this year and next. While the increase in demand has reduced active listings, it has also shortened the time to sell. In addition, an increase in the proportion of sales in the luxury home market will continue to contribute to the rise in the average price. Collectively, these factors will boost the average price 4.0 per cent in 2013 to $429,000, surpassing the record reached in 2007. As the market is expected to remain in balanced territory, the average price is forecast to reach $439,000 in 2014, an increase of 2.3 per cent.

RENTAL MARKET

Vacancies expected to remain near current levels

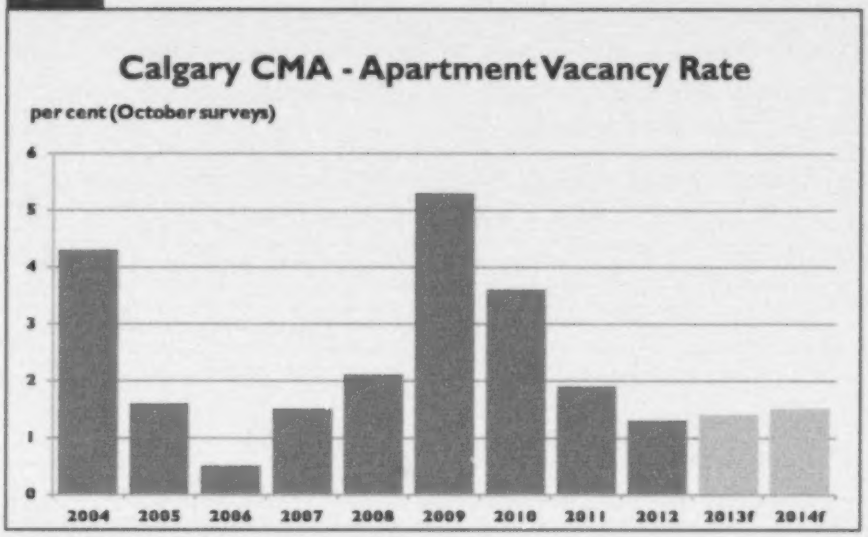
The apartment vacancy rate in the Calgary CMA declined to 1.3 per cent in October 2012 from 1.9 per cent in October 2011. Calgary witnessed a record level of net migrants in 2012 which helped lower vacancies. The vacancy rate is expected to remain near current levels throughout the forecast period.

Figure 4



Source: CREA, CMHC Forecast (f)

Figure 5



Source: CMHC, CMHC Forecast (f)

With the labour market relatively stronger than other regions in Canada, migrants will continue to come to Calgary, supporting rental demand. The vacancy rate in 2013 and 2014 is forecast to average 1.4 and 1.5 per cent, respectively.

Rental rates in Calgary have steadily increased over the last couple of years. The average two-bedroom rent in October 2012 rose to $1,150 per month, up from $1,084 in October 2011. The decline in vacancies, combined with various repair and maintenance costs, will contribute to another rise in rents this year. In 2013, the average two-bedroom rent is forecast to reach $1,200 per month. With the vacancy rate expected to remain relatively low, the average two-bedroom rent in 2014 is forecast to increase further to $1,240 per month.

Apartment starts for rental tenure in Calgary increased in 2012, reaching its highest level in over 20 years. There were 455 market apartment rental units started in 2012, compared to only eight in 2011. Some developers have been able to take advantage of the tightening rental market conditions and start more rental units. While no apartment rental units have been started to the end of March 2013, there were 385 units under construction. As these units reach completion, they will represent additional supply for tenants. The addition of these new units will also contribute to the rise in average rents as well as the modest rise in vacancies.

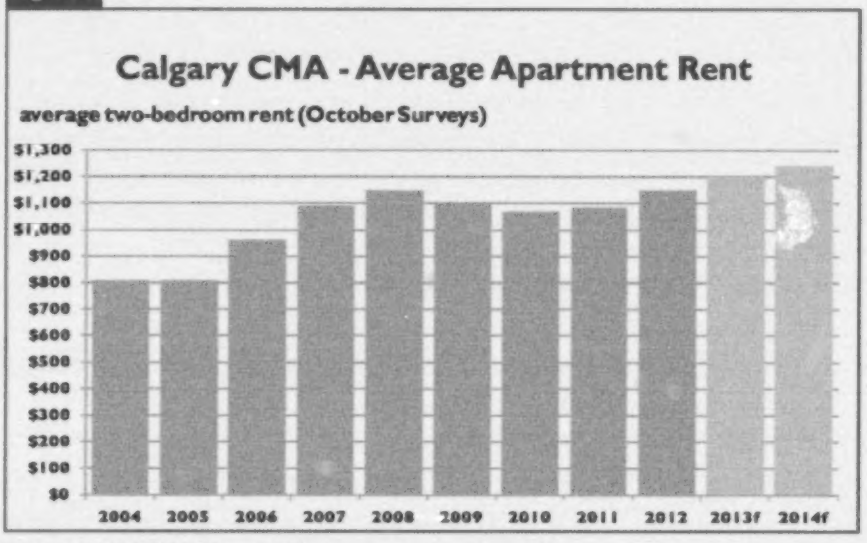
ECONOMIC OVERVIEW

Employment forecast to modestly rise

Employment in the Calgary CMA rose 3.7 per cent in 2012, representing the highest rate of growth since 2008. The gain in employment this year is not expected to be as strong as economic growth has moderated. In the first quarter of 2013, average employment was up only 2.0 per cent compared to a 4.6 per cent gain in the first quarter of 2012. While economic growth will not experience the same contributions from public spending and net exports between Alberta and the United States, continued investment and development of Alberta's natural resources will help keep job creation positive in Calgary. Employment is forecast to rise 2.3 per cent in 2013 and 2.4 per cent in 2014.

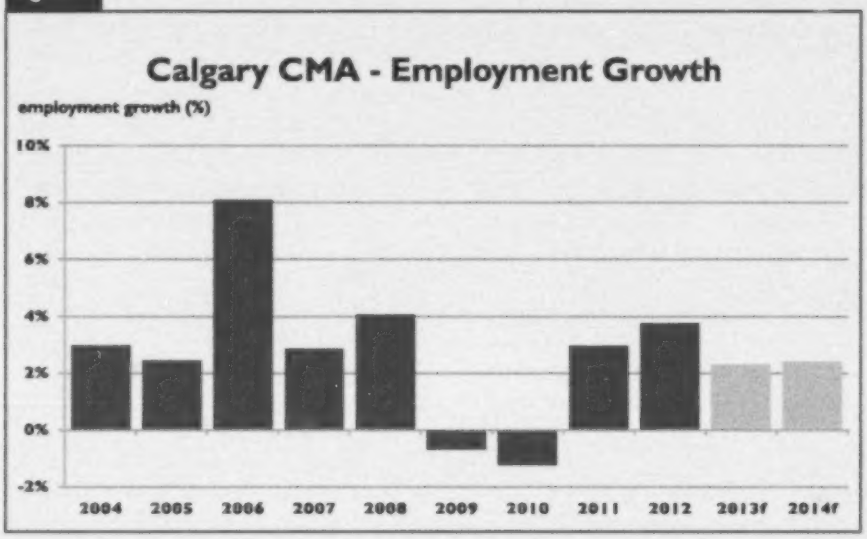
The labour market in the Calgary CMA had outperformed many other regions in Canada. The unemployment

Figure 6



Source: CMHC, CMHC Forecast (f)

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

rate in the CMA declined from an average of 5.8 per cent in 2011 to 4.7 per cent in 2012, well below the national average of 7.2 per cent. Although employment growth in Calgary is anticipated to remain positive, changes to the labour force and participation rate will edge the unemployment rate higher. The unemployment rate is forecast to increase to 4.9 per cent in 2013, up from 4.7 per cent in 2012. In 2014, the unemployment rate is forecast to slightly decline to an average of 4.8 per cent.

Labour market conditions in Calgary have led to impressive wage gains. Average weekly earnings in the first quarter of 2013 were up 8.6 per cent from the previous year reaching $1,120 per week. Calgary's low unemployment rate has put pressure on employers to increase wages in order to attract new employees or keep existing ones. In addition, the gain in full-time jobs has also contributed to the rise in average weekly earnings. The increase in earnings will support consumer spending, compensate for higher mortgage carrying costs, and also help prospective buyers move into homeownership.

Net migration has been a key contributor to population growth in Calgary. In 2012, the population in the Calgary CMA rose by 3.2 per cent, representing a gain of 40,517 people. Of this total, 29,309 were due to net migrants, which was also a record for migration in the Calgary CMA. Although Calgary continues to draw people from other regions in Canada, the contribution from other countries has consistently moved higher. Net international migration, excluding non-permanent residents, increased for the seventh consecutive year in 2012, reaching 14,484. In the years ahead, Calgary's economy is expected to continue attracting people to the region but not at the same pace as in 2012. The strengthening economic performance in most other provinces will inhibit Calgary's ability to attract people, keeping migration from reaching record levels. Net migration is forecast to reach 22,000 people in 2013 and 22,400 in 2014.

MORTGAGE RATE OUTLOOK

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Forecast Summary Calgary CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	5,782	5,084	5,961	6,200	4.0	6,300	1.6
Multiples	3,480	4,208	6,880	5,500	-20.1	5,800	5.5
Starts - Total	9,262	9,292	12,841	11,700	-8.9	12,100	3.4
Average Price ($):							
Single-Detached	514,466	547,670	580,135	581,000	0.1	593,000	2.1
Median Price ($):							
Single-Detached	435,251	457,271	478,669	480,000	0.3	490,000	2.1
New Housing Price Index (% chg.)	1.7	-0.1	1.7	3.8	-	2.9	-
Resale Market							
MLS® Sales	20,996	22,466	26,634	27,000	1.4	27,700	2.6
MLS® New Listings	46,278	43,781	42,137	42,500	0.9	43,000	1.2
MLS® Average Price ($)	398,764	402,851	412,315	429,000	4.0	439,000	2.3
Rental Market							
October Vacancy Rate (%)	3.6	1.9	1.3	1.4	-	1.5	-
Two-bedroom Average Rent (October) ($)	1,069	1,084	1,150	1,200	-	1,240	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	704,800	725,500	752,700	770,000	2.3	788,500	2.4
Employment Growth (%)	-1.2	2.9	3.7	2.3	-	2.4	-
Unemployment rate (%)	6.8	5.8	4.7	4.9	-	4.8	-
Net Migration [1]	10,377	13,450	29,309	22,000	-24.9	22,400	1.8

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of April 26, 2013.

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